

HURON COUNTY TRANSIT FUNDS
Bad Axe, Michigan

Component Units' Financial Statements

Auditor's Report

September 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name HURON TRANSIT CORP	County HURON
Audit Date 9/30/04	Opinion Date 3/24/05	Date Accountant Report Submitted to State: 3/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan as revised*.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

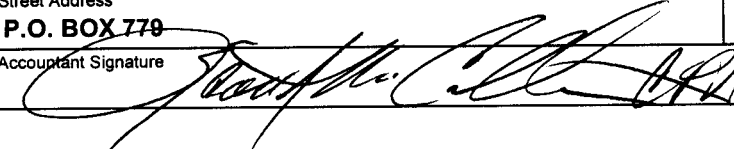
Certified Public Accountant (Firm Name) ROBSON & McCALLUM, CPA's			
Street Address P.O. BOX 770	City LAPEER	State MI	ZIP 48446
Accountant Signature 		Date 3/31/05	

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	<u>PAGE</u> 1
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS	3
STATEMENT OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5 - 9
SUPPLEMENTARY SCHEDULES	
SCHEDULE 1 - SCHEDULE OF LOCAL REVENUES	10
SCHEDULE 2 - OPERATING EXPENSES	11
SCHEDULE 3 - NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS	12
SCHEDULE 4 - DETAIL OF INELIGIBLE EXPENSES AND REVENUES	13
SCHEDULE 5 - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL	14
SCHEDULE 6 - SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE	15
SCHEDULE 7 - MILEAGE DATA	16



ROBSON AND McCALLUM
Certified Public Accountants

624 W. Nepessing Street • Suite 106
Lapeer, Michigan 48446
(810) 664-2961 • FAX: (810) 664-9511

Carole A. Robson, CPA • Scott A. McCallum, CPA • Members AICPA and MACPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Huron Transit Funds
Bad Axe, Michigan 48413

We have audited the component unit financial statements of the Huron Transit Funds, component units of the County of Huron, as of and for the year ended September 30, 2004 as listed in the table of contents. These financial statements are the responsibility of the management of the Funds and the County of Huron. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements present fairly, in all material respects, the financial position of the Huron Transit Funds at September 30, 2004, and the results of their operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in the footnotes, the Funds has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, on October 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2005 on our consideration of the Huron Transit Funds internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, agreements and other matters.

Our audit was made for the purpose of forming an opinion on the component unit financial statements of Huron Transit Funds, County of Huron, taken as whole. The accompanying financial information listed as supplementary financial information in the table of contents, including the Schedule of Federal and State Financial Assistance as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of the Huron Transit Funds. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Huron Transit Funds have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

Robson and McCallum
March 24, 2005

HURON COUNTY TRANSIT FUNDS
STATEMENT OF NET ASSETS
September 30, 2004

	<u>GOVERNMENTAL ACTIVITY HURON TRANSIT FUND</u>	<u>BUSINESS TYPE ACTIVITY HURON TRANSIT CORPORATION</u>
<u>ASSETS</u>		
Current Assets		
Cash and Cash Equivalents	\$ 555,021	\$ 62,288
Investments	141,626	
Accounts Receivable	-0-	28,315
Operating Grants Receivable	45,197	
Due from Other Fund	39,358	
Prepaid Expenses		30,742
Inventory		5,329
Total Current Assets	<u>\$ 781,202</u>	<u>\$ 126,674</u>
Property and Equipment		
Land	\$ -0-	\$ 17,500
Operating Facility		1,120,719
Equipment		319,651
Vehicles:		
Revenue		2,609,351
Other		42,515
Total Property and Equipment	<u>\$ -0-</u>	<u>\$ 4,109,736</u>
Less: Accumulated Depreciation	<u>-0-</u>	<u>(2,780,578)</u>
Net Capital Assets	<u>\$ -0-</u>	<u>\$ 1,329,158</u>
Total Assets	<u>\$ -0-</u>	<u>\$ 1,455,832</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ -0-	\$ 48,563
Salaries Payable		14,024
Compensated Absences		47,250
Due to Other Fund		39,358
Accrued Payroll Taxes		5,298
Operating Grants Payable	<u>84,555</u>	
Total Liabilities	<u>\$ 84,555</u>	<u>\$ 154,493</u>
<u>NET ASSETS</u>		
Investment in Capital Assets	\$ -0-	\$ 1,329,158
Unrestricted (Deficit)	<u>696,647</u>	<u>(27,819)</u>
Total Net Assets	<u>\$ 696,647</u>	<u>\$ 1,301,339</u>

See Auditor's Report and Notes to the Financial Statements.

HURON COUNTY TRANSIT FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
September 30, 2004

	<u>GOVERNMENTAL ACTIVITY HURON TRANSIT FUND</u>	<u>BUSINESS TYPE ACTIVITY HURON TRANSIT CORPORATION</u>
Operating Revenues		
Demand Respons	\$ -0-	\$ 103,823
Contract Fares		176,588
Freight Income		<u>3,234</u>
Total Operating Revenues	<u>\$ -0-</u>	<u>\$ 283,645</u>
Operating Expenses	\$ -0-	\$(1,809,065)
Operating Loss	<u>-0-</u>	<u>(1,525,420)</u>
Non-Operating Revenues		
Local Revenues	\$ 269,801	\$ -0-
State Operating Grants	571,168	
State Capital Grants	47,535	
Federal Operating Grants	147,497	
Federal Capital Grants	190,138	
Transfers under Operations Contract		<u>1,279,896</u>
Total Non-Operating Revenues	<u>\$ 1,226,139</u>	<u>\$ 1,279,896</u>
Non-Operating Expenses		
Transfers Under Operations Contract	<u>1,279,896</u>	<u>-0-</u>
Increase (Decrease) in Net Assets	(53,757)	(245,524)
Net Assets - October 1, 2003	755,726	1,546,863
Prior Period Adjustment	<u>(5,322)</u>	<u>-0-</u>
Net Assets - September 30, 2004	<u>\$ 696,647</u>	<u>\$ 1,301,339</u>

See Auditor's Report and Notes to the Financial Statements.

HURON TRANSIT CORPORATION
STATEMENT OF CASH FLOWS - BUSINESS TYPE ACTIVITY
Year Ended September 30, 2004

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows From Operating Activities

Operating Revenue	\$ 287,164
Payment to Suppliers	(614,751)
Payment to Employees	(701,452)
Net Cash Used by Operating Activities	<u>\$(1,029,039)</u>

Cash Flows From Non-Capital Financing Activities

Transfers under Operations Contract	\$ 1,279,896
Net Cash Flows Provided by Non-Capital Financing Activities	<u>\$ 1,279,896</u>

Cash Flows From Capital and Related Financing Activities

Capital Assets Purchased	\$ (237,673)
Net Cash Flows from Capital and Related Financing Activities	<u>\$ (237,673)</u>
Net Increase in Cash	\$ 13,184
Cash - October 1, 2003	<u>49,104</u>
Cash - September 30, 2004	<u>62,288</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (1,525,420)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	461,389
(Increase) Decrease in	
Accounts Receivable	3,519
Prepaid Expenses	(359)
Inventory	1,737
Increase (Decrease) in	
Accounts Payable	(2,655)
Accrued Payroll	(570)
Compensated Absences	4,325
Accrued Payroll Taxes	(926)
Due to Other Funds	<u>29,921</u>
Net Cash Used by Operating Activities	<u>\$ (1,029,039)</u>

See Auditor's Report and Notes to the Financial Statements.

HURON COUNTY TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF REPORTING ENTITY:

As a component unit of the County of Huron, the Corporation has entered into a contract with the County to operate a county-wide transportation system with financial assistance provided by Act No. 51 of the Public Acts of 1951 and Section 18 of the Federal Transit Law of 1964. The Huron County transit operations are accounted for in a special revenue fund, the Huron Transit Fund, and an enterprise fund, the Huron Transit Corporation.

The accounting policies of the Huron County Transit funds conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies.

ACCOUNTING CHANGE

Effective October 1, 2003, the Corporation implemented the provisions of Governmental Accounting Standards Board (GASB) Statement NO. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

SCOPE OF REPORTING ENTITY:

In accordance with the provisions of the Governmental Accounting Standards Board Statement #14, "Defining the Governmental Reporting Entity," the component unit financial statements of the Huron County Transit Funds contain all the unit's executive or legislative branches. Control by or dependence on the unit was determined on the basis of appointment of governing authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the unit, obligations of the unit to finance any deficits that may occur, receipt of significant subsidies from the unit, disposition of surplus funds and scope of public service.

The Huron County Transit Funds have no oversight responsibility, accordingly, there are no other governmental entities included in the general purpose financial statements.

BASIS OF ACCOUNTING:

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable; expenditures are recognized when they become a liability. Enterprise funds are accounted for using the full accrual basis of accounting. The full accrual basis of accounting provides that revenues are recorded when earned and expenditures are recorded when the liability is incurred.

GOVERNMENTAL TYPE FUNDS ACTIVITIES:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

BUSINESS TYPE FUNDS ACTIVITIES:

Enterprise Funds - Enterprise Funds are used to account for operations (A) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (B) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

HURON COUNTY TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

PROPERTY TAXES:

Property taxes are levied on each December 1st on the State equalized value of property located in the County as of the preceding December 31st. Taxable values are based on assessed values which are established annually and equalized by the State at an estimated 50% of current market value.

The 2003 State taxable valuation of the County totaled \$1,284,095,696 on which .1997 mills were levied for public transportation services. Taxes are payable without a penalty through February 14. Delinquent taxes are purchased by the County Revolving Fund which remits these taxes to the Transit Fund.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Michigan Public Act No. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, no expenditures in the Huron Transit Special Revenue Fund were incurred in excess of the amount appropriated.

CASH AND INVESTMENTS:

Deposits are carried at cost. Deposits are in one financial institution in the name of the County. Michigan Compiled Laws, Section 129.91, authorizes the County to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money.

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are demand deposits and short-term investments with a maturity date of three months or less when acquired.

INVENTORY:

Inventories consist of replacement parts and fuel which are valued at the lower of cost or market. Office supplies are not included in inventories.

CAPITAL ASSETS:

Capital Assets are stated at cost. Donated fixed assets are valued at their estimated fair market value on the date donated. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method. For all fixed assets purchased with grant funds, depreciation is charged against contributed capital. For all assets purchased with operating funds, depreciation is expensed.

When federal or state funded assets are withdrawn from public transportation service, the disposition of the asset is determined by the Michigan Department of Transportation.

HURON COUNTY TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

MAJOR CLASSES OF CAPITAL ASSETS CONSIST OF THE FOLLOWING:

	Purchased with Authority Funds	Purchased with Capital Grants	Total
Capital Assets Not Being Depreciated			
Land	\$ 17,500	\$ -0-	\$ 17,500
Other Capital Assets			
Building and Improvements	\$ 11,789	\$ 1,108,930	\$ 1,120,719
Vehicles	22,785	2,629,081	2,651,866
Office Equipment	37,627	135,864	173,491
Maintenance Equipment	16,245	80,204	96,449
Communication Equipment	3,523	46,188	49,711
Total Capital Assets	\$ 109,469	\$ 4,000,267	\$ 4,109,736
Less Accumulated Depreciation	(74,074)	(2,706,504)	(2,780,578)
Net Capital Assets	\$ 35,395	\$ 1,293,763	\$ 1,329,158

ADDITIONS AND DISPOSALS FOR THE YEAR ENDED SEPTEMBER 30, 2004 ARE AS FOLLOWS:

	BALANCE 10/01/03	ADDITIONS	DISPOSALS	BALANCE 9/30/04
Capital Assets Not Being Depreciated				
Land	\$ 17,500	\$ -0-	\$ -0-	\$ 17,500
Other Capital Assets				
Building and Improvements	\$ 1,108,719	\$ 12,000	\$ -0-	\$ 1,120,719
Vehicles	2,445,522	206,344		2,651,866
Office Equipment	173,491			173,491
Maintenance Equipment	77,120	19,329		96,449
Communication Equipment	49,711			49,711
Total Capital Assets	\$ 3,872,063	\$ 237,673	\$ -0-	\$ 4,109,736
Less Accumulated Depreciation	(2,319,189)	(461,389)	-0-	\$(2,780,578)
Net Capital Assets	\$ 1,552,874	\$ (223,716)	\$ -0-	\$ 1,329,158

RISK FINANCING:

The Huron Transit Corporation is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors and omissions. The Corporation is a member of the Michigan Transit Pool (a group self insurance pool) to account for and finance these risks of loss. Currently, the pool has two separate loss protection programs known as (1) the Liability Coverage Program and (2) the Direct Property Damage Coverage Program. The Liability Coverage Program provides coverage for motor vehicle liability as required by state law and general liability coverage. The Direct Property Damage Coverage Program provides coverage for collision losses, comprehensive losses, and losses of use.

HURON COUNTY TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

RISK FINANCING: (continued)

Payments ("premiums") charged to members participating in the Liability Coverage Program and the Direct Property Damage Coverage Program are determined in amounts pursuant to cost allocation plans for each program. However, both of the programs involve the transferring of risk of loss amongst members, and premiums are subject to retrospective adjustments to prior years. Generally, the Corporation's maximum loss per occurrence is limited as follows:

	<u>DEPOSIT PREMIUMS</u>	<u>MAXIMUM RETENTION PER OCCURRENCE</u>	<u>COVERAGE LIMIT PER OCCURRENCE</u>
Motor Vehicle and General Liability	\$ 57,673	\$ 100,000	\$ 1,000,000
Direct Property Damage	\$ 14,804	\$ 10,000	Book Value of Property

If a loss is greater than the retention amount, the difference is covered by excess insurance carriers.

Members pay directly the first \$2,000 of each loss. The next \$8,000 is also the member's responsibility, but comes from the member's premium deposit. Loss amounts above \$10,000 are pooled, and shared between all program members, based upon the relative book values of each respective member. Comprehensive losses over \$50,000 are covered by the excess insurance carrier.

The Corporation reports its required contribution to these programs as insurance expense for the period of coverage. Additional assessments which are considered likely are accrued in accordance with FASB Statement No. 5. Any dividends or returns of contributions are recognized as a reduction of expense at the time the dividend is declared.

DETAILED NOTES ON ALL FUNDS:

CASH AND INVESTMENTS:

The deposits of the Huron Transit Fund and the Huron Transit Corporation are in accordance with statutory authority.

At September 30, 2004, the balance sheet carrying amount of deposits was \$758,935 and the bank balance as of September 30, 2004 was \$745,975. Cash accounts are pooled with the funds of other County entities and are considered as one insurable entity for the purposes of FDIC insurance. Accordingly, none of the cash deposits are insured. The investment listed on the balance sheet is a certificate of deposit with a maturity date of greater than three months.

CASH AND INVESTMENTS:

In accordance with GASB Statement 3, cash deposits and investments are classified into three categories of credit risk as follows:

- Category 1: Insured or collateralized with securities held by the County or its agent in the County's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the County's name.
- Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the County's name).

Cash deposits are classified in risk category number three.

The GASB Statement No. 3 risk disclosure for the investments are:

<u>NON-RISK CATEGORIZED INVESTMENT</u>	<u>CARRYING VALUE</u>	<u>MARKET VALUE</u>
National City Municipal Investment Fund	\$31,038	\$31,038

HURON COUNTY TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

DETAILED NOTES ON ALL FUNDS: (continued)

ACCOUNTS RECEIVABLE:

Receivables have been recognized for all significant amounts due the Huron County Transit Funds. Valuation reserves have not been provided because the collection thereof is not considered doubtful.

DETAILED NOTES ON ALL FUNDS:

DEFERRED COMPENSATION:

Huron Transit Corporation offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of Huron Transit Corporation for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in Huron Transit Corporation's financial statements. Employer contributions for the year were \$1843.

At no time during the fiscal year did the Corporation's pension plan investment portfolio use derivative instruments or products.

COMPENSATED ABSENCES:

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly, not to exceed a total accumulation of twenty days. Vacation pay leave is payable at 100% to employees when they terminate employment.

Sick leave is accumulated at the rate of one day for each month of service, not to exceed a total accumulation of sixty days for full-time employees. Sick leave is payable at 50% to employees when they voluntarily terminate employment, 0% for involuntary termination.

USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RIDERSHIP INFORMATION:

Ridership information is recorded daily. The bus odometers are read each morning and evening by the drivers and the mileage for that day is recorded on the respective bus mileage log. In addition, each day the driver records the number and type of riders on a driver's log. Drivers' logs are turned in to the manager at the end of the day. These records provide the ridership figures for the quarterly operating reports submitted to the State.

PRIOR PERIOD ADJUSTMENT:

An adjustment has been made to beginning net assets in the Huron Transit Fund for changes prior to the fiscal year reimbursements that have been closed.

HURON TRANSIT FUND
SCHEDULE OF LOCAL REVENUES
Year Ended September 30, 2004
Schedule 1

Revenues	
Property Taxes	\$ 259,149
State Shared Revenue	2,503
Interest	<u>8,149</u>
Total Local Revenues	<u>\$ 269,801</u>

See Auditor's Report and Notes to the Financial Statements.

HURON TRANSIT CORPORATION**OPERATING EXPENSES**

Year Ended September 30, 2004

Schedule 2

	<u>OPERATIONS</u>	<u>MAINTENANCE</u>	<u>GENERAL ADMINISTRATION</u>	<u>TOTAL SYSTEM</u>
Operating Expenses				
Labor				
Operator and Dispatcher	\$ 513,945	\$ -0-	\$ -0-	\$ 513,945
Other Wages		45,078	104,314	149,392
Fringe Benefits	208,401	16,264	45,246	269,911
Services	4,086	7,666	45,386	57,138
Materials and Supplies Consumed				
Fuel and Lubricants	114,607	2,265		116,872
Other Materials and Supplies	6,125	62,489	9,986	78,600
Utilities	25,513			25,513
Casualty and Liability Costs				
Premiums for Public Liability and Property Damage Insurance	126,549			126,549
Premiums - Other Corporate Insurance			5,118	5,118
Miscellaneous				
Travel and Meetings			2,442	2,442
Other Miscellaneous Expenses	265		1,931	2,196
Depreciation and Amortization			461,389	461,389
Total Operating Expenses	<u>\$ 999,491</u>	<u>\$ 133,762</u>	<u>\$ 675,812</u>	<u>\$ 1,809,065</u>

See Auditor's Report and Notes to the Financial Statements.

HURON TRANSIT CORPORATION
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
Year Ended September 30, 2004
Schedule 3

	<u>FEDERAL</u> <u>SECTION 5311</u>	<u>STATE</u> <u>OPERATING</u>
	<u>10/1/03</u>	<u>10/1/03</u>
	<u>9/30/04</u>	<u>9/30/04</u>
Expenses		
Labor	\$ 663,337	\$ 663,337
Fringe Benefits	269,911	269,911
Services	57,138	57,138
Materials and Supplies	195,472	195,472
Utilities	25,513	25,513
Casualty and Liability Costs	131,667	131,667
Miscellaneous	4,638	4,638
Depreciation	<u>461,389</u>	<u>461,389</u>
Total Expenses	\$ 1,809,065	\$1,809,065
Less: Ineligible Expenses		
Cost of Fiscal Year 2003 Audit	5,300	-0-
Depreciation on Contributed Capital	453,186	453,186
Ineligible Portion of Dues	<u>340</u>	<u>340</u>
Total Eligible Expenses	\$ 1,350,239	\$1,355,539
Less: Project Revenue		
Freight Tariffs	<u>3,233</u>	<u>3,233</u>
Net Eligible Expenses	<u>\$ 1,347,006</u>	<u>\$1,352,306</u>
Maximum Section 5311 Reimbursement (10.95%)	<u>\$ 147,497</u>	
Projected State Reimbursement (42.236619648%)		<u>\$ 571,168</u>
 <u>MANDATORY FLOOR</u> : State operating grant for fiscal year 1997		 <u>\$ 505,915</u>

See Auditor's Report and Notes to the Financial Statements.

HURON TRANSIT CORPORATION
DETAIL OF INELIGIBLE EXPENSES AND REVENUES
Year Ended September 30, 2004
Schedule 4

FREIGHT TARIFFS:

Revenue earned from package delivery is deducted as ineligible project revenue for Federal Section 5311 and State Operating Assistance.

NOTE:

Since the Company did not expend more than \$300,000 in federal funds during the fiscal year 2003, the \$5,300 cost of the audit is not eligible for federal reimbursement.

HURON TRANSIT FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended September 30, 2004
Schedule 5

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues			
Property Taxes	\$ 220,000	\$ 259,149	\$ 39,149
State Shared Revenue	2,500	2,503	3
Federal Section 5311 Operating Assistance	155,064	147,497	(7,567)
State Operating Assistance	620,000	571,168	(48,832)
Rural Transit Assistance Program	3,500		(3,500)
Interest	25,000	8,149	(16,851)
Capital Grants	<u>-0-</u>	<u>237,673</u>	<u>237,673</u>
Total Revenues	\$ 1,026,064	\$ 1,226,139	\$ 200,075
Expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess of Revenues Over (Under) Expenditures	\$ 1,026,064	\$ 1,226,139	\$ 200,075
Other Financing Sources (Uses)			
Transfers Under Operations Contract	<u>1,419,617</u>	<u>1,279,896</u>	<u>139,721</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	\$ (393,553)	\$ (53,757)	\$ 339,721
Fund Balance - October 1, 2003	755,726	755,726	-0-
Prior Period Adjustment	<u>-0-</u>	<u>5,322</u>	<u>(5,322)</u>
Fund Balance - September 30, 2004	<u>\$ 362,173</u>	<u>\$ 696,647</u>	<u>\$ 334,474</u>

See Auditor's Report and Notes to the Financial Statements.

HURON TRANSIT FUNDS
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2004
Schedule 6

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	STATE GRANTOR NUMBER	PROGRAM OR AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE AT 10/1/03	CURRENT YEAR RECEIPTS/(PAYMENTS) REVENUE RECOGNIZED	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT 9/30/04
Federal Transit Administration Passed through Michigan Department of Transportation							
Operating Assistance - Section 5311	20.509	02-0047/Z6	\$ 147,497	\$ -0-	\$ 131,514	\$ 147,497	\$ 15,983
	20.509	02-0047/Z4		14,511	18,919		(4,408)
		02-0047		(1,503)			(1,503)
		01-0038		223	223		-0-
		99-0072		1,921			1,921
		95-0385		(2,800)		2,800	-0-
		94-0222		(663)		663	-0-
Capital Assistance - Section 5310	20.513	03-0267	72,683		72,059	72,059	-0-
Capital Assistance - Section 5309	20.500	02-0047/Z3	9,600		9,600	9,600	-0-
Capital Assistance - Section 5311	20.509	01-0912	15,600		15,463	15,463	-0-
Capital Assistance - Section 5310	20.513	01-0860	71,350		93,016	93,016	-0-
Total Federal Financial Assistance				\$ 11,689	\$ 340,794	\$ 341,098	\$ 11,993
Michigan Department of Transportation Operating Assistance-Act 51							
03-04			\$ 571,168	\$ -0-	\$ 598,120	\$ 571,168	\$ (26,952)
02-03				(32,042)			(32,042)
01-02				(7,842)			(7,842)
00-01				(11,808)			(11,808)
99-00				19,119			19,119
98-99				3,273		(3,273)	-0-
97-98				8,174			8,174
Capital Assistance		03-0267	18,171		18,015	18,015	-0-
Capital Assistance		02-0047/Z3	2,400		2,400	2,400	-0-
Capital Assistance		01-0912	3,900		3,866	3,866	-0-
Capital Assistance		01-0860	178,375		23,254	23,254	-0-
Total State Financial Assistance				\$ (21,126)	\$ 645,655	\$ 615,430	\$ (51,351)
Total Federal and State Financial Assistance				\$ (9,437)	\$ 986,449	\$ 956,528	\$ (39,358)

See Auditor's Report and Notes to the Financial Statements.

HURON TRANSIT CORPORATION
MILEAGE DATA (UNAUDITED)
Year Ended September 30, 2004
Schedule 7

PUBLIC
TRANSPORTATION
MILEAGE

Demand - Response

1st Quarter - December 31, 2003	196,790
2nd Quarter - March 31, 2004	193,400
3rd Quarter - June 30, 2004	188,650
4th Quarter - September 30, 2004	<u>158,999</u>
Total Demand - Response	<u>737,839</u>
Total Operation	<u>737,839</u>

The methodology used for compiling the annual mileage has been reviewed and found to be an adequate and reasonable method for recording vehicle mileage.

See Auditor's Report and Notes to the Financial Statements.



ROBSON AND McCALLUM
Certified Public Accountants

624 W. Nepessing Street • Suite 106
Lapeer, Michigan 48446
(810) 664-2961 • FAX: (810) 664-9511

Carole A. Robson, CPA • Scott A. McCallum, CPA • Members AICPA and MACPA

**Report on Compliance with Requirements
Applicable to each Major Program and Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Board of Directors
Huron Transit Corporation
Bad Axe, Michigan 48413

Compliance

We have audited the compliance of Huron Transit Corporation with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal and state programs for the year ended September 30, 2004. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of Huron Transit Corporation's management. Our responsibility is to express an opinion on Huron Transit Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about Huron Transit Corporation's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Huron Transit Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of Huron Transit Corporation is responsible for establishing and maintaining effective control over compliance with requirements of laws, regulations, contract, and grants applicable to federal programs. In planning and performing our audit, we considered Huron Transit Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A *material weakness* is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal or state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities.

A handwritten signature in black ink, appearing to read "Robson & McCallum", with a long horizontal flourish extending to the right.

Robson and McCallum
March 24, 2005



ROBSON AND McCALLUM

Certified Public Accountants

624 W. Nepessing Street • Suite 106
Lapeer, Michigan 48446
(810) 664-2961 • FAX: (810) 664-9511

Carole A. Robson, CPA • Scott A. McCallum, CPA • Members AICPA and MACPA

**Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

Board of Directors
Huron Transit Corporation
Bad Axe, Michigan 48413

We have audited the component unit financial statements of Huron Transit Corporation as of and for the year ended September 30, 2004, and have issued our report thereon dated March 24, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.


Compliance

As part of obtaining reasonable assurance about whether Huron Transit Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Huron Transit Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A *material weakness* is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities.


Robson and McCallum
March 24, 2005